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Canada, Railways, Canals and
Telegraph Lines, Standing Committee
on, 1952/53
HOUSE OF COMMONS

Seventh Session—Twenty-first Parliament
1952-53

Government
Publications

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STANDING COMMITTEE

ON

RAILWAYS, CANALS AND
TELEGRAPH LINES

Chairman—H. B. McCULLOCH, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE [and
reports]

No. 2

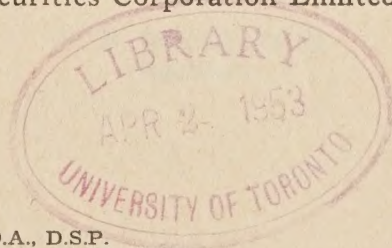
Bill No. 189 (Letter D-5 of the Senate), An Act to incorporate Mid-
Continent Pipelines Limited.

FRIDAY, MARCH 27, 1953

WITNESSES:

Mr. D. K. MacTavish, Q.C., Parliamentary Agent; Mr. G. M. Wilton,
Solicitor; Mr. D. Anderson, of the Fish Engineering Corporation, and
Mr. D. Newton, Manager of Dominion Securities Corporation Limited,
Ottawa.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1953



STANDING COMMITTEE

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: H. B. McCulloch, Esq.,

Vice-Chairman: H. P. Cavers, Esq.

Applewhaite,	Follwell,	Murphy,
Beaudry,	Fulton,	Murray (<i>Cariboo</i>),
Bertrand,	Garland,	Mutch,
Beyerstein,	Gillis,	Nickle,
Bonnier,	Gourd (<i>Chapleau</i>),	Nixon,
Bourget,	Green,	Noseworthy,
Browne (<i>St. John's West</i>),	Harkness,	Pouliot,
Cannon,	Harrison,	Richard (<i>Saint Maurice-</i>
Carroll,	Healy,	<i>Lafleche</i>),
Carter,	Herridge,	Riley,
Casselman,	Hodgson,	Robinson,
Cauchon,	James,	Rooney,
Cavers,	Lafontaine,	Ross (<i>Hamilton East</i>),
Chevrier,	Low,	Shaw,
Churchill,	Macdonald (<i>Edmonton</i>	Spence,
Clark,	<i>East</i>),	Stuart (<i>Charlotte</i>),
Conacher,	MacNaught,	Thatcher,
Darroch,	McCulloch,	Weaver,
Dewar,	McGregor,	Whiteside,
Eudes,	McIvor,	Whitman,
Ferguson,	Mott,	

R. J. GRATRIX,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, March 24, 1953.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 189 (Letter D-5 of the Senate), intituled: "An Act to incorporate Mid-Continent Pipelines Limited".

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, March 30, 1953.

The Standing Committee on Railways, Canals and Telegraph Lines begs leave to present the following as a

SIXTH REPORT

Your Committee has considered Bill No. 189 (Letter D-5 of the Senate), intituled: "An Act to incorporate Mid-Continent Pipelines Limited" and has agreed to report the said Bill with amendments.

A copy of the evidence adduced thereon is appended hereto.

Class 3 of said Bill No. 189 provides for Capital Stock consisting of 5,000,000 shares without nominal or par value. Your Committee recommends that, for taxing purposes, under Standing Order 93(3), each share be deemed to be worth \$7.00.

All of which is respectfully submitted.

H. B. McCULLOCH,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, March 27, 1953.

The Standing Committee on Railways, Canals and Telegraph Lines met at 11.00 o'clock p.m. this day. Mr. H. B. McCulloch, Chairman, presided.

Members present: Messrs. Applewhaite, Bonnier, Browne (*St. John's West*), Carroll, Carter, Churchill, Dewar, Follwell, Garland, Green, Harrison, Herridge, Hodgson, Lafontaine, Macdonald (*Edmonton East*), Mott, Murphy, Mutch, Nickle, Noseworthy, Pouliot, Riley, Stuart (*Charlotte*), Whiteside.

In attendance: Mr. F. Larson, M.P., Sponsor; Mr. D. K. MacTavish, Q.C., of Ottawa, Parliamentary Agent; Mr. G. M. Wilton, of Toronto, Solicitor; Mr. D. Anderson, of Houston, Texas, and Mr. D. Newton, of Ottawa, Manager of Dominion Securities Corporation Ltd., all appearing on behalf of the Petitioners.

The Committee commenced consideration of Bill No. 189, (Letter D-5 of the Senate), intituled: "An Act to incorporate Mid-Continent Pipelines Limited".

The Preamble was called.

Messrs. MacTavish, Wilton, Anderson and Newton were severally called and examined regarding the project contemplated in the said Bill.

The Preamble and Clauses 1 and 2 were severally considered and adopted.

On Clause 3:

On motion of Mr. Whiteside:

Resolved,—That, for the purpose of levying a charge on the capital stock, which will have no par value, the Committee recommend that each share be deemed to be worth seven dollars (\$7.00).

Clauses 3, 4 and 5 were severally considered and adopted.

On Clause 6:

Mr. Green moved:

"That sub-clause (a) of Clause 6 of this Bill be amended by deleting the words *or outside* in line 14; by deleting the words *and/or international* in line 19; by deleting the words *the main* and *line or* in like 26, and by inserting after the word "that" in line 26 thereof the word *all*".

After discussion, and the question having been put, the said motion was agreed to.

Clause 6 as amended, Clauses 7 to 11 inclusive and the Title were severally considered and adopted.

The Bill, as amended, was adopted and the Chairman ordered to report the same to the House.

On motion of Mr. Follwell:

Ordered,—That the Committee print 750 copies in English and 250 copies in French of this day's Minutes of Proceedings and Evidence.

At 1.10 o'clock p.m. the Committee adjourned to meet again at 11.00 o'clock a.m., Monday, March 30, 1953.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MARCH 27, 1953.

The CHAIRMAN: Order, gentlemen. I will call the preamble of Bill D-5 of the Senate, No. 189 of the House of Commons, an Act to incorporate Mid-Continent Pipelines Limited. I shall call the preamble and we will hear from Mr. D. K. MacTavish as our first witness.

Mr. D. K. MACTAVISH: Mr. Chairman and gentlemen. I appear this morning on behalf of the incorporators of Mid-Continent Pipelines Limited, whose bill is before this committee. This bill, gentlemen, is drafted in accordance with the general pipelines legislation and, as you know, passed the Senate and has been in the House of Commons. Now, the bill is similar in form to other bills that have been passed by this committee, and I think it is very important in your consideration of the bill to bear in mind that it purports to do nothing but give certain capacity to the company, Mid-Continent Pipelines Limited, to do the things that are set out in the bill, mainly to transmit gas. Before the company can even start to lay a pipeline, it must get authority from the Board of Transport Commissioners under the general pipelines legislation. It must also, as you gentlemen well know, get authority from the province or provinces where it will find its raw product, for the carriage of that product to its destination, so that I underline and emphasize the fact that this committee's responsibility is, in my opinion, if I may put it this way, limited to the capacities that are suggested to be granted by the Act. I mention that because it is obviously impossible at this stage of the development of any company to have available projected and forecast figures in detail that would be available and that we would if we were appearing before the Board of Transport Commissioners, which body, as you gentlemen well know, has a section devoted to economic research with experts to check the sort of evidence that we would adduce in respect of an application before that body. So that really is the position the company takes. I think it unnecessary to go through the bill section by section. As I say, it is in the form provided for by the general Act and similar in form to the other bills that have been passed. Now, we have here in terms of evidence Mr. Wilton of Toronto, who is the solicitor for the group mentioned in the bill. We have also Mr. Anderson, an expert in respect of gas and transmission of gas and oil, and finally we have Mr. Newton, Dominion Securities Ottawa representative, who will be able to deal with any questions as to the financing of the project which has been provided for in a projected manner. Now, I think, Mr. Chairman and gentlemen, that is all I ask leave to say in opening. I shall be glad to answer any questions I can, and any I cannot, I will—if I may—submit them to the gentlemen that are with me.

Mr. GREEN: Mr. MacTavish, the applicants for this charter are all shown as residents of Saskatchewan, and they are the same persons who made application last year for incorporation of a company under the name of Boundary Pipeline Corporation, are they not?

Mr. MACTAVISH: That is correct.

Mr. GREEN: Will you tell me who are the other people interested in this corporation?

Mr. MACTAVISH: Yes, Mr. Green, I can get that for you immediately. Mr. Wilton has that information. I have not got it. I think we put it on the record in Boundary Pipeline and I am instructed they are the same.

Mr. GREEN: Will you get it again, because we want it on the record.

Mr. MACTAVISH: I shall see that it goes on the record.

Mr. GREEN: Can you get it from Mr. Wilton now?

Mr. MACTAVISH: Yes, I will be glad to. Will you give that information, Mr. Wilton, please.

Mr. Glen Wilton, Solicitor, Mid-Continent Pipelines Limited, called:

The WITNESS: The other persons interested, Mr. Green, are Gordon Smith and John A. MacAulay of Winnipeg.

By Mr. Green:

Q. Can you tell us who they are?—A. Mr. Gordon Smith is an executive. He is the vice chairman, I believe, of the Board of Governors of the University of Manitoba; he is in the oil and gas business now with Bailey Selburn, and he was at one time, I think, with the Reliance Grain Company. I think his father, Sydney Smith, was founder of that company. Mr. John MacAulay is a lawyer in Winnipeg with Akins, MacAulay & Company. He is a director of the Bank of Montreal. He was chairman of the Red Cross conference held in Toronto last August. He is also a vice president of Safeway Stores.

There are 11 persons interested, living in Toronto: R. A. Armstrong is a chartered accountant; W. J. Ayers is a chartered accountant; T. Beatty is an investment dealer; W. E. N. Bell is an insurance agent; J. W. Bowes is a manufacturer's agent; C. F. W. Burns is an investment dealer; J. D. Gibson is an economist; W. J. Hogg is a chartered accountant; G. M. MacLachlan is an executive with a milling company; G. M. Thompson is a manufacturer's agent; G. M. Wilton is a solicitor. That represents 18 persons—five in Regina, two in Winnipeg and 11 in Toronto.

Q. Can you tell us who else is interested in this application?—A. I beg your pardon?

Q. Can you tell us who else is interested in this application?—A. That is all, Mr. Green.

Q. Mr. Wilton, when this bill received second reading in the Senate, the sponsor, the Hon. Thomas Wood, made a speech to be found at page 248 of *Hansard* of the Senate, and he said as follows:

In addition to the men named in the petition, others interested in the company will be: Mr. John MacAulay, Q.C., barrister, Winnipeg; Mr. Gordon Smith, Winnipeg, who is prominent in the grain and oil business of western Canada; Mr. Charles F. Burns, financier, Toronto; Dominion Securities of Canada, Toronto; Kidder Peabody & Company, investment bankers, New York; White Weld & Company, investment bankers, New York; and Fish Engineering Company, Houston, Texas, who will be in charge of technical development.

Now you have not mentioned any of these firms. What about them?—A. Those people have not advanced any money towards the cost of engineering or incorporating the company or anything else we have done to date. We have three financial firms which are mentioned interested in the project, and if the group which I have described and enumerated succeed in getting a charter and various other things together, we expect that eventually these investment houses will come to our assistance and raise a substantial sum of money—something in the neighbourhood of \$285 million, I believe, will be required to build the gas system in Alberta and build the pipeline across Canada to our market. At the present time the Fish Engineering Company are engaged by us in making some studies. A representative of that company and a representative of

Dominion Securities are here today and will testify. It may be that some clarification is required with regard to the statement you read there. They are interested in so far as they have indicated they will be associated with us, but I have only read here this morning the list of the people who are actively financially interested and who are advancing money as of this time.

Q. Would I be unfair in saying these corporations also are very much interested, would be very heavily involved if your project went ahead?—A. I think they would be very interested.

Q. I beg your pardon?—A. They would be interested, yes, in this way, that we have no commitments with any of these companies at this time so far as stock participation is concerned. We are not even committed definitely and finally so far as the financing is concerned. If at the time we get ready to bring out a public issue, and when we are ready to ask for \$285 million, if we cannot treat satisfactorily as we see it with Kidder Peabody or White Weld or Dominion Securities, we have as yet made no commitments which will require us to deal with them. They are friendly with us, they have sent a representative here to testify, they associate themselves with us in every way, and we do have a certain duty, a certain obligation to them, because they are assisting us during the period when we are trying to get organized, but we are not committed.

Q. You said that the financing to date has been done by the 18 individuals you have mentioned?—A. That is right, sir.

Q. How much money has been spent?—A. I should think as of this day I would be safe in saying that money actually expended and debts incurred would be in the neighbourhood of \$50,000.

Q. \$50,000?—A. Correct.

Q. And how much of that has been spent on engineering studies?—A. The engineering bills have not yet been submitted, but I think that I would not be too far out in saying that approximately 50 per cent of that would be for engineering.

Q. Fifty per cent?—A. That is correct, sir.

Q. Would I be fair in saying that the other \$25,000 has been spent in promotion and legal expenses?—A. I might say, Mr. Green, that the group that are now associated with Mid-Continent Pipelines Limited started to organize with the hope of exporting gas to the east on March 3, 1949, so we have been interested in this for quite a long time.

We incorporated the Saskatchewan Company to begin with, and then this same group as you have mentioned endeavoured at the last session of parliament to obtain a charter which would enable them to take natural gas from Alberta as far as Winnipeg. When I speak of \$25,000 for engineering, and \$25,000 as other expenses, I am including everything that has been spent since March 3, 1949.

Q. Including what was spent in connection with the Boundary Pipeline application?—A. Yes, sir.

Q. You said that \$25,000 has been paid out for engineering studies?—A. No. It has not been paid out, but I would think that was our obligation.

Q. Do you say that \$50,000 has been paid out?—A. No, sir. That is the total incurred.

Q. Oh. How much has been paid out, then?—A. I would think about half of that.

Q. About \$25,000?—A. That is right, sir.

Q. When the Boundary Pipeline Corporation bill was under discussion in this committee last year I asked Mr. MacTavish how much had been spent. The question will be found at page 11 of the proceedings of the committee.—A. \$25,000 was what we said at that time.

Q. I said this as found at page 11 of the proceedings of this committee on April 4, 1952:

By Mr. Green:

Q. There is one other question I would like to ask you, Mr. MacTavish. How much money has been spent by the applicants to date in connection with this project?—A. I think I can find that out for you immediately. I am instructed that about \$25,000 has been spent.

Is that the same \$25,000 which you say has been the total spent to date?—A. That would be approximately right. I do not know if we should make a distinction between the actual expenditures and the "incurrences".

Q. I know. I am asking you what has been spent, not what indebtedness has been incurred. I am asking you what has actually been spent. And you say \$25,000, which you had spent a year ago. Is that all that has been spent to date?—A. I think that would be right, sir.

Q. And that is the only money which has been put up by these eighteen people who are making an application for a charter. Is that right?—A. That would be right, sir.

Q. Do any of them have any gas wells?—A. Any which?

Q. Any gas wells?—A. No, they do not. As I told you, sir, these people are a representative group. We became interested in the possibility of taking gas to the east from western Canada early in 1949. Now these people, I may say, are men of modest fortunes and they have become interested in what they consider a very ambitious Canadian enterprise. They have not gone into oil well drilling or the gas business or into gas as a group. They may have holdings in some companies which are engaged in it, but this group, as an individual entity, has not taken leases or endeavoured to develop any gas or any oil.

Q. Does this company have any interest in gas or oil in the west?—A. Not as such, no.

Q. Who performed the engineering services of which you speak?—A. The Fish Engineering Company.

Q. You say the Fish Engineering Company?—A. That is right.

Q. And they have not been paid anything?—A. No.

MR. GREEN: Might I continue with Mr. MacTavish, Mr. Chairman?

THE CHAIRMAN: Certainly. But Mr. Riley has the floor.

MR. RILEY: Do I understand, Mr. Wilton, that \$25,000 has already been paid in respect to the Boundary Pipeline Corporation?

THE WITNESS: That is right.

MR. GREEN: I think the evidence is that this \$25,000 is the same money or figure which was given to us a year ago, concerning the application of the Boundary Pipeline Corporation.

By Mr. Follwell:

Q. In answer to Mr. Green, you said, Mr. Wilton, that there was none of this group interested in gas or oil wells. But did you not say that one of this group was the Vice-President of Bailey-Selburn. Would he be interested in that?—A. Yes, he would. But as a group we have not subscribed any money. I do not know what the operations of these individuals may be separately and apart from this enterprise. I have some gas and oil stock myself, but we have not contributed anything with the idea of selling gas to Mid-continent Pipelines Limited.

Q. You say that individually they may be interested in certain gas or oil wells?—A. Yes sir.

By Mr. Carroll:

Q. You said that one of the promoters was an insurance agent, did you not?
—A. Yes.

Q. You mentioned an insurance agent as being one of the promoters of this company. Just what part does he play in the insurance business outside of being an agent? Is he a director of any insurance company?—A. The man I mentioned is Mr. W. E. N. Bell. He is an insurance agent in Toronto and he works for the Manufacturers Life Insurance Company. He is a man of about 42 years of age, and he has been one of their leading salesmen for the last 7 or 8 years. He is a member of the board of governors of Ridley College, and he was captain of the Canadian Cricket Team which went over to England in 1936. He is a director of a number of smaller companies, but I cannot say that he is a director of an insurance company.

By Mr. Nickle:

Q. Inasmuch as a connection has been established between Gordon Smith of Toronto and Bailey-Selburn Oil and Gas Company, would you clarify the fact that Bailey-Selburn Oil and Gas Company has no interest itself whatsoever in the Boundary Pipeline Corporation or in the proposition which is now under discussion?—A. I trust I did not give that impression, sir, because it is not correct. There is certainly no connection between that company and Mid-continent Pipelines Limited.

The CHAIRMAN: You said you wished to speak to Mr. MacTavish, Mr. Green.

Mr. GREEN: Yes, thank you Mr. Chairman. And now, Mr. MacTavish, in your statement to the committee you said nothing whatever about where it is proposed to build this pipeline.

Mr. MACTAVISH: No sir.

Mr. GREEN: Could you not give us some information on that point?

Mr. MACTAVISH: Perhaps a general answer would be this: generally speaking, it would be east from the gas fields; generally speaking east. They are not interested in going west at all.

Mr. GREEN: That is a pretty wide field. If you just want to build a pipeline anywhere east of somewhere in the west, I should think that we would have to have more detailed information than that.

Mr. MACTAVISH: Yes. We would be glad to give that. I did not know whether you wanted the actual route.

Mr. GREEN: I want the full details. That is the only thing I am very much interested in.

Mr. MACTAVISH: Exactly, Mr. Green. The reason I mentioned the fact in my opening, that this has to go before other boards, and more particularly the Board of Transport Commissioners, was in relation to this: that this project has not developed yet to the point where we can pin point across the area the exact places that the pipeline will be laid. It has not advanced to that point.

Mr. RILEY: In order for you to make an application to the Board of Transport Commissioners, you must first of all become incorporated and have a charter.

Mr. MACTAVISH: That is correct. And of course, when we get to that stage, the details which have to be produced are most meticulous, to put it mildly. I happen to have been through that myself, and there is a wealth of material including profiles and everything which has to be submitted to that board and scrutinized very carefully by their experts.

Mr. GREEN: In fact, Mr. MacTavish, you are taking the position that you do not have to say where you are planning to build your line, that you do not

have to tell this committee of the House of Commons where you are proposing to build your line, and that it will be sufficient for you to tell the Board of Transport Commissioners. Well, if that is the view you have taken, I think it is a pretty challenging position.

Mr. MACTAVISH: Yes, sir. That would be an arrogant position, and I would not think of taking it at all, because I fully recognize that the House of Commons, and this committee of the House of Commons, is entitled to all the information which it regards as relevant.

But all I can say is that I cannot give information which I have not got. This scheme has not developed to the point where we are in a position to give you the details of where the pipeline will be laid.

Mr. GREEN: Do you mean to say that the people for whom you are appearing are not yet in a position, or have not yet decided where they want to build this pipeline? Do you mean to say that they are asking for a charter to build a pipeline from the west to the east and that is all the information they can give us? You have not even said whether it is to be from Alberta?

Mr. MACTAVISH: I could not go further than that because, when this identical question came up in respect to the Boundary Pipeline Corporation—I have not got the transcript before me—I think we said that the pipeline would proceed east from Alberta to Winnipeg, and that was so to speak the terminal point at that time. Now that is the intention and it must necessarily be the intention of any of the companies: I suggest we will move eastward from Alberta to seek a wider market than is available from a terminal point such as Winnipeg and therefore it is the intention of this company to seek the markets of eastern Canada.

Mr. GREEN: Now we have it that it is the intention of this group to seek a market in eastern Canada?

Mr. MACTAVISH: Yes sir.

Mr. GREEN: Well why not go ahead and tell us the full story.

Mr. MACTAVISH: Well I do not—

Mr. GREEN: I think the committee is kindly disposed to any plan of that kind, and personally I want to get some details.

Mr. CARROLL: Could you not say that you have some idea of what the eastern terminals of this will be—Toronto or Montreal.

Mr. MACTAVISH: Yes, the favourable and attractive markets are in the larger cities, Toronto and Montreal. Further than that could I say this Mr. Green, that in view of the recently declared policy against the export of gas out of Canada and the further factor that obviously we are bound by the law of Canada, and we are happy to be bound by that law, we cannot export gas from Canada, and consequently having got, say, as far as Winnipeg, it is quite obvious that if we are to get gas to the favourable markets of the east, to such places as Toronto and Montreal and that area, we will have to go across Canada north of the lakes. I see no other way of doing it.

Mr. GREEN: No, but is that your intention, or have your group got so far yet as to form any intention?

Mr. MACTAVISH: Yes sir. We certainly have the intention of transmitting to the markets of eastern Canada. We recognize fully that we must do that only within the law of Canada, and the geographically applied law so to speak. There is no other available course as far as I can see as a layman than the one I have mentioned—north of the lakes.

Mr. GREEN: That is an all Canadian route.

Mr. MACTAVISH: That is right.

Mr. RILEY: You cannot say you are going to cut through Saskatoon and Regina?

Mr. MACTAVISH: No, that is not possible. I think it is quite apparent from the amount of money spent on the project to date that we could not have made the surveys possible to give that sort of detail.

Mr. GREEN: You really have not made any survey at all that would be of much value.

Mr. MACTAVISH: Not in terms of the exact route.

Mr. CHURCHILL: That \$285 million, is that just a mere guess, or somebody else's estimate?

Mr. MACTAVISH: I think we can establish that as better than a guess. It cannot be better than an estimate but I would like to think it is better than a guess.

Mr. CHURCHILL: How can you get an estimate when you do not know where are going or how you are going to get there?

Mr. MACTAVISH: I think people who make estimates in respect of gas lines must do so before the exact detailed route is established and I think that is current practice in the history of pipelines to date. I am not in the position to say how closely the estimates check with the actual.

Mr. RILEY: It really is an educated guess?

Mr. MACTAVISH: That is right.

Mr. GREEN: You are really not in a position to know the cost at all?

Mr. MACTAVISH: We have no cost as Mr. Wilton said. We have the plan and as I said, our plan is to transmit gas from the field to the markets of eastern Canada, serving the markets available to us on the way, because that of course is the only economic way gas can be carried.

Mr. GREEN: Now, Mr. MacTavish, what about going to the United States border?

Mr. MACTAVISH: Our position with respect to that is this. In the light of the recently declared policy it is impossible for us to export gas to the United States, and therefore we will not undertake the expense of a gas line to the border.

Mr. GREEN: Are you prepared to give a firm commitment that if this group gets a charter, the company will not build to the United States border.

Mr. MACTAVISH: I will be glad to give this commitment, that if this company gets a charter, as I hope it will, that it will not build a pipeline to the United States border so long as it is not possible to export gas from this country.

Mr. GREEN: What you mean is that you would like to do it, but you will not do it so long as you are prevented from doing it.

Mr. MACTAVISH: That is perhaps not an entirely correct implication on my words. Our desire is to serve the markets of eastern Canada, and we cannot export gas and therefore take advantage of a route through the States, and we therefore must go on the only route available to us, and it would obviously been foolish on our part to commit ourselves to an expenditure to build a pipeline to the United States border which we cannot legally use, and naturally we have no intention of doing anything not legally available to us.

Mr. GREEN: You are not prepared to give an undertaking that you will not build to the United States border.

Mr. MACTAVISH: I do not think it would be proper for me as counsel of this company to give an undertaking that would tend to be binding upon the company for all time. I could say with perfect honesty and with full instructions from my clients that we will not build a pipeline to the border, because we cannot legally export gas, and it would be folly to do so. If, in 50 years time, gas was available in such quantities that it would be the policy of the Canadian

government not only to allow but to encourage export, it would, I think, not be proper for me here and now to say that in these circumstances this company would not do the thing that the economy of the country dictates should be done.

Mr. GREEN: Would you be prepared to undertake that you will not—the company will not build a line through to the United States border without coming back to parliament to have an amendment to this character.

Mr. MACTAVISH: That would imply, sir, that a route would have to be incorporated into the Act, and I do not think that was ever the intention of parliament under the general pipeline legislation, and I think it would be difficult for us to comply with that.

Mr. GREEN: But you say in your petition for incorporation which you filed in the House of Commons records, that you wanted power, among other powers, to purchase, distribute and sell natural and artificial gas and oil within Canada and, if required, to export the same to the United States.

Mr. MACTAVISH: That is the power we asked for.

Mr. GREEN: That is obviously one of the powers you wish.

Mr. MACTAVISH: But which we are now denied.

Mr. GREEN: You are only denied by the statement of policy in the House.

Mr. MACTAVISH: Yes, that is right.

Mr. GREEN: Would it be fair to say you are not prepared to go further than say you will be bound by the statement made in the House.

Mr. MACTAVISH: Perhaps it would not be necessary to go further because that is a very broad statement having regard to the fact, as this committee knows, that we have to get a permit under Electricity and Fluid Gas Exportation Act and the minister in charge of the issuing of these permits has stated they will not be issued. So, from the point of view of the realistic situation we obviously have no hope of being able to get the power we ask for in the petition. In effect it has been denied to us and we cannot but face that realistic situation.

Mr. GREEN: So far as the actual exporting of gas to the United States is concerned you would be able to build a line to the border and turn the gas over to an American subsidiary.

Mr. MACTAVISH: Theoretically that is correct, and I think that has been the case all along. I do not think this parliament ever presumed to limit what can be done by any company in respect of things outside the country, so that the limitations upon us have been limitations within Canada, and we are still within these limitations, and happy to be so.

Mr. GREEN: And the charter for which you are asking gives you power to deal in gas and oil and other products of that nature both within and outside Canada?

Mr. MACTAVISH: That is correct.

Mr. GREEN: Are you willing to delete from that charter all reference to outside Canada?

Mr. MACTAVISH: We will gladly do so.

Mr. GREEN: That is section—

Mr. MACTAVISH: Section 6(a).

Mr. GREEN: That is: "within or outside Canada construct, purchase, lease or otherwise acquire and hold..." and so on. Would you be prepared to strike out "or outside"?

Mr. MACTAVISH: Yes sir.

Mr. GREEN: And three or four lines further down we find: "Sell, convey or otherwise dispose of and turn to account any and all inter-provincial and/or international pipelines." Would you be prepared to strike out "and/or international"?

Mr. MACTAVISH: Yes sir.

Mr. GREEN: And then five or six lines further down we find: "provided that the main pipeline or lines for the transmission and transportation of gas and oil shall be located entirely within Canada." Would you be prepared to strike out the words—

Mr. CARROLL: What line is that?

Mr. GREEN: About the middle of the page. Would you be prepared to strike out "the main" and "line or" and substitute "all" for the former so that that provision would read: "provided that all pipelines for the transmission and transportation of gas and oil shall be located entirely within Canada."

Mr. MACTAVISH: Yes sir.

Mr. GREEN: In that event it would still be possible for you to carry gas to the boundary and turn it over to an American affiliate. I suppose that is correct?

Mr. MACTAVISH: I am sorry sir, I do not quite catch that.

Mr. GREEN: It would still be possible for you to take gas to the boundary without breaking the terms of your charter, and turn it over to an American affiliate.

Mr. MACTAVISH: If I may say so, in my view, as a lawyer, it would have been possible in any event, because I do not think that parliament intended to suggest limiting provisions effective outside Canada.

Mr. APPLEWHAITE: Has parliament the power to authorize a company to do something outside Canada?

Mr. MACTAVISH: In my opinion it does not. I hold the view—

Mr. APPLEWHAITE: You said has or has not.

Mr. MACTAVISH: I said it has not.

Mr. GREEN: I think there is some question about that.

Mr. MACTAVISH: Yes, I would agree. That is a very involved question of law involving the law of extra territoriality, and it is a very confused and rather hypothetical field of law as you probably know Mr. Green, and I guess professors could argue about it for quite a while.

Mr. GREEN: I guess the picture is this Mr. MacTavish that you are prepared to be good boys as long as the Minister of Trade and Commerce will not let you export gas.

Mr. MACTAVISH: We always want to be good boys Mr. Green.

Mr. CARROLL: Just one question Mr. MacTavish. This sum of \$285 million is the estimate that your organization has for the construction of this pipeline.

Mr. MACTAVISH: Yes sir.

Mr. CARROLL: Well you must have some idea of how far the pipeline is going before making that estimate.

Mr. MACTAVISH: Yes sir. It is to go to the markets of eastern Canada mainly in the Toronto and Montreal area.

Mr. APPLEWHAITE: May I ask one question about that \$285 million. Roughly what proportion of that would be represented by equity stock and how much by bonded indebtedness?

Mr. MACTAVISH: I am unable to answer that question. Mr. Newton, the financial adviser, can answer that, or Mr. Wilton.

The WITNESS: I believe the formula adopted in the United States is 75 per cent first mortgage bond, 15 per cent preferred stock and 10 per cent common stock.

Mr. APPLEWHAITE: You say that is the formula generally adopted in the States. Is that the formula you intend to adopt?

The WITNESS: Yes.

Mr. MURPHY: Does the question of transport of gas in bond enter into the picture?

Mr. MACTAVISH: It is not in this picture, sir.

Mr. MURPHY: Is it out of the picture entirely?

Mr. MACTAVISH: Yes. Our understanding of the present situation is that export in bond in terms of gas would not be assistance to us.

Mr. MURPHY: Would it be of assistance to you?

Mr. MACTAVISH: I say it would not be.

Mr. MURPHY: Is there anything at present that would prevent you shipping it in bond across the United States into Canada?

Mr. MACTAVISH: I believe there is. I am unable to say exactly that it is so because frankly we have not even considered making any representations to seek such authority.

Mr. MURPHY: The Inter-Provincial Pipeline oil is shipped in bond, is it not?

Mr. MACTAVISH: I believe it was said in the House of Commons this session that it was for a short length.

Mr. MURPHY: If your company found it would be more economic to ship gas in bond to supply the eastern market would you consider that?

Mr. MACTAVISH: I think it would have to be considered. If I may say so as a layman, I think it is so remote it is hardly in the realm of contemplation.

Mr. MURPHY: That would be a contrary position taken by your economic advisers with respect to the Inter-Provincial Pipeline?

Mr. MACTAVISH: With respect to oil?

Mr. MURPHY: Yes.

Mr. MACTAVISH: Yes. My remark is, as I say, a layman's remark, but there is a difference between oil and gas in that respect.

Mr. MURPHY: I understand. You propose supplying the heavy market of Ontario and Quebec and are your advisers now considering the shipment over an all-Canadian route, or in bond?

Mr. MACTAVISH: Presently we are considering the all-Canadian route because I believe the possibility of shipping gas in bond is so remote as not really to be within the realm of contemplation.

Mr. MURPHY: How far in Ontario do you propose serving?

Mr. MACTAVISH: The history of these pipelines I believe is that to be economically successful in terms of marketing the end product you should, perhaps must, serve all economic markets along the route of the pipeline. So I would say this, that while the distance that the pipeline travels in Ontario would be quite substantial, it would be our policy to serve all economic markets along the line.

Mr. MURPHY: Where do you propose storing surplus gas?

Mr. MACTAVISH: On that question I will have to ask for expert advice.

Mr. NICKLE: Would you not say that, so far as gas export policy is concerned, Canada is rather putting the cart before the horse by prohibiting consideration of any pipeline route except one lying entirely across Canadian soil, at least until such time as all alternative routes have been fully considered?

Mr. MACTAVISH: Mr. Nickle, I think as counsel for this company it would not be proper for me to hazard an opinion on that because I really could not give an intelligent opinion.

Mr. NICKLE: To proceed with some further questioning on the same line, we have a statement made by the Minister of Trade and Commerce concerning Interprovincial Oil Pipeline to the effect that an all-Canadian route for this pipeline to the major refining centre at Sarnia, Ontario, would have been 402 miles longer and would have cost \$67 million more than a route across northern Michigan and Wisconsin. Now, what in your opinion is the position of natural gas as between that low cost route and the more expensive all-Canadian route to reach this major market of southern Ontario?

Mr. MACTAVISH: The only comment I could express on that Mr. Nickle, would be this. There apparently are considerations which have brought those responsible for this policy to the point of thinking that there is a difference in terms of transmission as between gas and oil which justify the policy that you referred to.

Mr. NICKLE: Mr. MacTavish, could you give us any indication of what percentage of the total market you hope to get along the area that could only be served by an all Canadian route? I mean the area around the Lakehead cities and the territory north of Lake Superior?

Mr. MACTAVISH: I think we can produce some evidence on that. In the meantime as a layman I would have to answer that on the basis of my rather elementary knowledge of geography, there are large areas that would not appear to provide any large economic market along the line.

Mr. NICKLE: In the evidence submitted by Trans-Canada Pipelines Limited in 1951 a detailed market survey was given of the markets across the prairie provinces, northern Ontario, southern Ontario and Quebec and according to the figures presented by Trans-Canada Pipelines, and I quote from the 1951 survey: Fort William, and Port Arthur and eight towns north of Lake Superior would in the fifth years after the opening of the pipeline provide a market for approximately 4.6 billion feet which is only 4.4 per cent of the total market they anticipated getting between the prairies and eastern Canada. Now, comparing that 4.4 of the total market with Mr. Howe's estimate of \$67 million extra cost to serve that small extra market, would you say that were it possible to secure a change in Canadian Government policy, that both the consumers of Canada and the producers of gas in western Canada would be far better off if a more economic route were used either through Sault Ste. Marie serving Sudbury and Toronto or else following the Interprovincial route to enter Ontario at Sarnia?

Mr. MACTAVISH: I would like to be able to answer that question, but I am not fully enough versed in the matter of oil and gas transmission.

Mr. NICKLE: Have you anybody here who can give evidence on that?

Mr. MACTAVISH: I think we can produce evidence, not in as much detail as Trans-Canada could, but we can make some useful comments on it.

Mr. NICKLE: Could we have your expert from the Fish Engineering Company answer some questions?

Mr. Donald L. Anderson, Fish Engineering Company, called:

The WITNESS: Mr. Chairman and gentlemen. We have been requested to make the study of a pipeline across Canada. Now, you were talking about the route and I might show you the route we have used in this estimate. This is not a concrete route; it is a generalized route. These are preliminary estimates and the detailed work necessary to select an exact route of course could not

be made at this time. But, possibly I can show you on this map if it might help you. We pick up the gas at a gathering point in Alberta and come across southern Alberta more or less in this area through Winnipeg and across to Sudbury and then this way with a branch line coming down to the Don Storage area, and a branch line to Montreal, with a line to Ottawa. That is the general route we are talking about in this estimate. In this estimate we plan to pick up gas in Alberta from a gathering system that would cost approximately \$45 million; that figure can be changed; but for the purpose of this estimate we are assuming that the gathering system would be \$45 million. Then, from the Alberta-Saskatchewan border, as I mentioned, to eastern Canada the transmission system would be \$240 million giving us a total of \$285 million. Now, in order for that line to be economical, there would have to be a required income of some \$47,595,000.

By Mr. Murphy:

Q. Would you give the size of the pipeline?—A. That varies. There are sections. It ranges from 18 inches to 30 inches.

Q. How long is the 30 inch line?—A. Approximately 75 miles.

Q. Where would that be?—A. At the western portion of the line. The size would diminish as you went east.

Q. Would you expect to serve the eastern market with an 18 inch line?—A. Some portion of it, yes.

Q. How much?—A. I do not have that.

Q. I understand that the other company that has a charter has a 30 inch line?—A. I do not know.

Q. I assume you are in a position to say whether or not it should be an 18 inch or 30 inch line to supply that market?—A. That depends on what you mean by serve. This 18 inch line is not necessarily over here in the western part. The 18 inch line is at the end. If I could explain it this way. A line with 100 miles may be a 10 inch line and as it comes into a city it gradually diminishes.

Q. What size is the main line coming from Winnipeg to the East?—A. We have 75 miles of 30 inch line, 340 miles of 22 inch line, 304 miles of 20 inch line and 144 miles of 18 inch line.

By Mr. Nickle:

Q. Would you indicate the maximum capacity of each of those lines?—A. I do not have that information. It depends on the pressure.

Q. Assuming maximum pressure. What would the maximum capacity be of an 18 inch line as compared to a 30 inch line?—A. I cannot answer that.

By Mr. Murphy:

Q. Have you any idea what diameter lines the major pipelines in the States use on similar distances?—A. Well, that again depends on the amount of gas that is going through and pressure which is going through. It is a technical subject that I am not qualified to discuss.

By Mr. Nickle:

Q. Would you indicate what your first year, third year and fifth year markets would be along the entire system?—A. On the basis of our \$285 million we are assuming peak days—and this is on the basis of the market studies we have made—will be in the first year 270 million cubic feet per day, the third year 310 million per day, and the fifth year 335 million per day.

Q. That is a peak day in each year?—A. Yes.

Q. What would be your anticipated annual market for the first, third and fifth years?—A. We are considering that on an 85 per cent load figure.

Q. Assuming at least three-quarters of the gas was sold to an uninterrupted industrial market?—A. Not necessarily. Through the use of storage you do not have to have an uninterrupted market.

Q. What capacity of storage facilities will be available in eastern Canada?—A. I do not know.

Q. You are assuming the 85 per cent load figure with storage helping meet your winter peaks. So far as I know you have only the Dawn Reservoir in Ontario, but could it contain anything like the volume of gas required to allow you to maintain an 85 per cent load figure?—A. I did not make this study. The individual who made it says it is.

By Mr. Murphy:

Q. Do you know who now has the use of that storage in the Dawn reservoir?—A. No.

Q. Do you know whether you could get it?—A. I understand inquiry has been made and that it is available.

Q. Has your company or any of your associates been in touch with the Gas Company respecting storage?—A. I could not say they have directly.

Q. Is there anybody here who can give evidence about that?

Mr. MAC TAVISH: Mr. Wilton can speak on that.

Mr. GREEN: I think we should have Mr. Anderson finish his statement.

Mr. MAC TAVISH: I wonder if after Mr. Anderson is through with his statement if he could put his qualifications on the record as to his background.

Mr. FOLLWELL: Where is this storage you are talking about?

Mr. MURPHY: Lambton County.

Mr. FOLLWELL: Is it surface storage?

Mr. MURPHY: No. Underground.

Mr. GREEN: Could we have Mr. Anderson's whole statement and then examine him afterwards?

The CHAIRMAN: I think that would be very proper.

Mr. MAC TAVISH: It might be appropriate for him to give his qualifications and then his statement.

The WITNESS: My name is Donald L. Anderson. I am an employee of the Fish Engineering Corporation; I have worked in the industry in its various fields for six years, both in utility work and cross country pipeline work, but primarily in market analysis work.

Mr. RILEY: What about academic qualifications?

The WITNESS: I am a graduate of the Rice Institute, Houston, Texas.

By Mr. Follwell:

Q. What field does that cover—being a graduate of that particular institution? Is that an engineering college or what?—A. Rice Institute is a university in Houston, Texas.

Q. What did you graduate in, in engineering?—A. A Bachelor of Arts degree.

By Mr. Browne:

Q. What engineering qualifications have you got?—A. I am not an engineer.

Q. You are not an engineer?—A. No, sir.

Q. Well, what sort of work do you do?—A. Primarily market analysis work in connection with gas transmission and distribution.

Q. Where has your experience been gained in that field?—A. With Houston Natural Gas Corporation in Houston, Texas, and with Fish Engineering.

Q. How long were you with the first named company?—A. Four years.

Q. And two years with Fish Engineering Company?—A. Yes.

Mr. GREEN: Mr. Chairman, could we have Mr. Anderson's full statement?

The WITNESS: I believe I had finished with the statement of the required annual income to gain a return of $6\frac{1}{2}$ per cent on an investment of \$285 million. That required an annual income, I think I said, of \$47,595,000. That does not include revenue required for gas purchases, but does include a 52 per cent income tax figure. Now, the volume of gas that would be purchased in the first year would cost, pegging gas at 10 cents per m.c.f., which is the going price now in Alberta, \$3,876,700, and that, added to the \$47 million, would give you the total required annual income necessary to return $6\frac{1}{2}$ per cent on your investment, and also pay your income tax. That, divided by your annual volume, would give you an annual average price of 66.8 cents per m.c.f., an average sales price for the first year. Now, using the same figures, that is, the same basis, the average price would drop down to 56 cents in the fifth year. Now, if the income tax were deferred, the average sales price then would drop to $52\frac{1}{2}$ cents in the first year, and $44\frac{1}{2}$ cents in the fifth year. A market can be acquired at a sales price of 42 cents. There are various methods available to any transmission company to sell gas to an industrial market at less than the average sales price. That is being done by other transmission companies that I am familiar with in the United States. To go a little bit further in this and to show the benefit of a high gas sales volume, assuming that in the fifth year the sales would increase to 450 million cubic feet per day, of course that would require additional investment, roughly, \$295 million rather than \$285 million, but on that basis of sales the average sales price would drop down to 36.4 cents per m.c.f., which, of course, is below any price now existing for industrial fuel.

The markets that are available from along that route are, of course, those markets in southern Saskatchewan, Moose Jaw, Regina, among others, Winnipeg, Sudbury and, of course, the markets in the eastern part of Canada, Montreal, Ottawa, Toronto, and those fringe areas and industrial areas that are not now served by Union Gas Company and the Dominion Gas Company—I may be mistaken in that name.

By Mr. Nickle:

Q. Would you indicate in dollars the amount of income tax you have set up for the first and fifth years?—A. We do it in a different manner than that. Through our experience with Fish Engineering Corporation—and we have built three of the major pipelines in the United States—the principals of our company have devised a formula which is extremely accurate and very useful in preliminary estimates of this nature. We use a percentage of 16.7 times the investment which gives you the required annual income, and that figure gives you what is necessary for the $6\frac{1}{2}$ per cent and 52 per cent income tax. Now, if you use 12.5 per cent rather than 16.7 per cent, then you arrive at the required income without income tax.

Q. Then you do have figures there in terms of dollars, the amount you have set aside for income tax in each of these years? How much of a federal subsidy are you going to have to have to make this pipeline break even?—A. As I say, we do not have any figures in terms of dollars, we work on percentages.

Q. Could you turn that into terms of dollars for us?—A. It would take a little figuring here, but I am sure I could do it. I believe that is \$11,970,000.

Q. That is the annual income tax?—A. Yes.

Q. \$11,970,000?—A. Yes.

Q. Now—have you finished your statement yet?—A. You may go ahead.

Q. I have some questions I would like to ask in connection with this. On the basis of your costs you figure an average cost of 66·8 cents per thousand cubic feet during the first year. You indicate that the average price at which gas must be sold would be about 42 cents. If corporation taxes were entirely remitted, in other words, with a federal subsidy of \$11·97 million that first year, you would still be 10 cents per thousand cubic feet. Roughly, one-twentieth of your income would result in loss. In other words, with the difference between average cost without income tax payable, which would be 52½ cents per thousand cubic feet, and the average selling price of 42 cents, you would still show losses on the year of \$12 million in the first year of operation. Is that right?—A. Perhaps I did not make that 42-cent price clear. That would be for large industrial users.

Q. You would be selling at a gate price to distributing companies in each community. You would be selling at an average price to them and they would set up their own rate schedules for various types of industrial, commercial and domestic consumers. Is that right?—A. I believe there is more in the question than that. You have involved questions of policy of the company which I am not qualified to discuss. This average price that I am indicating here, I am saying that would be the gate price to a retail distributor. We are merely indicating an average price here that can be manipulated in various ways through the rate structure of the transmission company itself. But all things considered, we merely indicate that would be the average price.

Q. Could you answer this question at this stage: is it the intention of the company to set up a uniform price, approximately the same price to all consumers along the entire length of the pipeline? Will the Saskatchewan-Manitoba consumer pay the same price for his gas as the consumer in Montreal or Toronto?—A. I think that is a question which would have to be answered by those operating the pipeline. I am not qualified to answer questions of policy of the Transmission company.

Q. Is there anyone here who could answer that question?

Mr. MAC TAVISH: I am not sure that there is. I think we are getting into a phase of future policy which falls into the category I mentioned earlier. If we get incorporation and can proceed with the project, we will have to go to the Board of Transport Commissioners as I have said, with a very detailed analysis of these points. I do not believe at this time a policy has been established in such a way as to give you an answer.

Mr. NICKLE: My purpose in this series of questions is to try to determine whether or not this pipeline route you propose will first of all be economical, and secondly, if it is uneconomical, how is the loss going to be recovered or overcome? It has been mentioned that there might be a remission of income tax which would take care of about half of the loss. But that would be a federal subsidy of about \$12 million yearly. The next point is the average price. Obviously your competitive position in eastern Canada, or your selling price at which the gas can be sold sets a price limit. Are you going to recover part of that loss by assessing a higher price to the prairie consumer than he would otherwise have to pay if the line followed the most economical route?

Mr. MAC TAVISH: I appreciate the validity of those questions but it seems to me that we are not in a position to answer them. Let me illustrate my point by a hypothetical proposition.

Suppose for example there was to be a subsidy. Suppose for example there was to be a subsidy in terms even more generous than remission of income tax which you have suggested, that is, something even better. There are all sorts of subsidies. We could bring in a whole series of figures which would be interesting, if you like, but which would be unrealistic because there might not be such a subsidy. That is why it poses for us such a difficult

question to try to obtain such information as you are seeking, because it would have to be based on so many suppositions including now the very costly construction in the area north of the Great Lakes. That is why. It is not for the reason of evasion. It is almost impossible to get the sort of facts that would provide the answers to your line of questioning.

Mr. NICKLE: Surely in the setting up of a pipeline, the backers of the pipeline, before they spend too much money on engineering, or economic studies, or promotion of the pipeline, or legal costs, or anything of that nature, would need to be satisfied in their own minds that the proposition they are promoting will be completely economic, in other words, that it can pay for itself.

But these figures you have presented to us would indicate a loss during the first five years alone, barring any federal subsidy, or barring any ridiculously low price for Alberta gas. And even if such subsidies were provided which would mean a loss to the Canadian taxpayer and producers, the pipeline would suffer a loss of \$50 million in the first five years.

Mr. MACTAVISH: Quite.

Mr. NICKLE: If that is true, how can such a proposition be financed through public subscription.

Mr. MACTAVISH: I appreciate the point you are making, and I think the answer to it lies in two perhaps rather general statements. First of all, you very properly said that people, before they commit themselves finally to a venture, normally must know pretty closely where they are going. That, generally, I admit is true. But at the same time I have seen, as I am sure you have seen, many groups move along in an orderly way on a project up to the first stage of incorporation, which is the one we are on now. Then they may make further investigation and finally, in some cases, they may abandon the project. In other words, they may abandon something which in the incorporation stage looked like a very valid and probably profitable venture. That, I think, is generally true of business.

Now, coming to the next statement I would like to make, I think in the business we are discussing now it becomes very apparent. I think that we can frankly assume here that we are in this position: that we cannot express anything more definite than hope that commercially we can achieve a profitable operation along the lines of the estimates given to you by Mr. Anderson.

Now, the backers of this project are taking a calculated commercial risk. It may be very great indeed, and there are those blind spots in it which I do not think we can eliminate at this point. If we could, we would certainly do so long before we got to the Board of Transport Commissioners.

Mr. HERRIDGE: I think the witness in this case has taken a very correct stand. I think he has fairly answered the questions which were put to him by Mr. Green this morning. I am speaking of Mr. MacTavish. And I think that when we come to this type of discussion we are getting into the field which the Board of Transport Commissioners was instituted to deal with. As a committee, we are concerned with the incorporation of this company. We have heard about its major intentions, its financial proposals, and so on. I think that is all this committee is concerned with, or should deal with.

The CHAIRMAN: That is all.

Mr. CARROLL: Do I understand from Mr. Anderson that this company, according to the figures which he gave us, would be losing millions of dollars over the first five years?

The WITNESS: No sir. I am glad you asked that question, because I would like to correct that impression. I did not mean to infer that at all. I was merely indicating the effect of various figures, and that these assumptions could be bettered, as I showed you, by perhaps a more rapid amortization over the first five years, or a reduction of income taxes, or something of that nature.

I am not saying that a loss would be incurred in the first few years. We should like to draw this conclusion to the studies that we have made. We feel that the market is available; and we feel that if there is enough gas, and if it be available to the pipeline, the market is there to warrant the pipeline as an economic proposition.

Mr. APPLEWHAITE: Your feeling is that it would probably be an economic undertaking?

The WITNESS: It is.

Mr. NICKLE: Could you amplify this statement? You say your average cost of gas in the first year is 66·8 cents per thousand cubic foot, while your selling price is only 42 cents, and yet you say you are not going to lose money.

The WITNESS: This project will give us a 6½ per cent return. In other words, if you eliminated the 6½ per cent return, you still would not knock down that average price of 66·8 cents.

The CHAIRMAN: Are there any other questions?

Mr. NICKLE: Would you break even that first year, in your opinion, or even in the fifth year?

The CHAIRMAN: I think it is up to the company to decide whether or not they want to lose money. It is their money which they are going to spend.

Mr. NICKLE: My point is simply this: that I agree with Mr. Herridge in his statement that the Board of Transport Commissioners of Canada is charged with the responsibility of deciding where the pipeline should go and with determining between various competitors or competitive groups seeking the right to build pipelines. However as long as the Board of Transport Commissioners is now bound by a decision of laid-down government policy, that only a pipeline which is laid over Canadian territory will be accepted, we find that the Board of Transport Commissioners is not going to be allowed to do its job unless government policy changes. So for that reason I feel that these questions are completely justified, sir.

Mr. CARTER: Mr. Chairman, I do not think we are here, as a committee, to reverse or even to criticize government policy, but only to determine whether or not this company should be incorporated. Moreover, I do not think the time of this committee should be taken up with questions which are not relevant to those points.

Mr. BROWNE: Mr. Chairman, it is certainly relevant to know if the company needs a subsidy of \$12 million per year.

Mr. WHITESIDE: They did not ask for it.

Mr. NICKLE: In any case it will be 14 cents 1,000 cubic feet if income tax is estimated on that. The remission if income tax is certainly a government subsidy.

Mr. MOTT: Do they remit income tax to other lines?

Mr. NICKLE: No.

Mr. MOTT: Are they doing it in this case?

Mr. NICKLE: I think not.

The WITNESS: If I might clear up this 16·7 per cent figure so that there is no misunderstanding on that. That includes 6½ per cent return on investment, it includes 52 per cent income tax and it includes all expenses, depreciation of any kind, everything except gas purchases. If you reduce that figure by the amount of the income tax, then you still retain your 6½ per cent earnings, and you still have depreciation and other expenses except gas purchases.

Mr. MACDONALD: We are here this morning to deal with a bill asking for a chapter to build a pipeline. This is a model bill. It has been explained to the committee. The persons seeking this charter have the opinion of very

reputable engineers and responsible financial institution in regard to the financing: I believe these are the only points relative to discussion in this committee. There has been something unfortunately interjected into the discussion in regard to subsidies or some thing of that kind. If the company does not make any profit for four or five years they are not likely to pay tax. We could listen for a long time in this committee to a discussion with regard to the construction of the line, but evidence has been submitted that we are not going to have that kind of information because it is not yet available. Regards tax someone said something about it being 52 per cent. I think if they review their figures, the tax would not in any case be 52 per cent. I think that such questions should be abandoned immediately. I believe I sense the feeling of the committee, except for probably one member who does not agree with government policy, but that is not what we are here to decide with relation to the export of gas, and I would suggest that for future discussions, Mr. Chairman, you insist that the feelings of the other members of the committee be considered, and that the discussion take place along the terms outlined in this bill before us, and we be given an opportunity to decide whether we are going to grant this company a charter or not.

By Mr. Follwell:

Q. There are some of us here from Ontario who are interested in getting gas, and I would like to ask the witness a question in regard to that. Could you indicate by pointing at the map where approximately the end of this pipeline would be. Between what points.—A. To the best of this estimate we have, the line would run through Regina and Moose Jaw, through Winnipeg, past Fort William, by Sudbury, and down to the point where the line would branch with one lateral going to Montreal which would pick up communities in that area, and also a branch down to the Dawn storage area which would pick up communities there, and there is also to be a lateral to Ottawa off the Montreal branch.

Q. You propose to survey all the communities in between the east and west of these areas?—A. That would depend again on the policy of the company as to how they would handle that.

Q. You would have competition between Toronto and the west of Toronto. You would have to meet competitive prices. There is also another question I would like to have from the revenue standpoint. As you take gas from the field in the west, are there any elements that are taken off before it reaches the distributor?—A. There would be field gas to run the compressor stations.

Q. I mean other elements in the gas to be taken from the wells. Would you get revenue from by-products?—A. That would depend upon the gas purchase contract, what type of arrangement for the gas was made. Whether the gas is bought in the ground or produced at the well head, or whatever may be done would determine that.

Q. If you purchase at the well head, there are certain by-products you could benefit from?—A. Yes, if they could be extracted from the gas, and again that would depend on the contract. If they were buying wet gas, or a gasoline plant dump was to be constructed then the products from the gas could be extracted.

Mr. HODGSON: On clause 11 Mr. MacTavish mentioned the companies that were prepared to finance this company. This company is going to be a stock selling company. You are going to sell stock to the public.

Mr. MACTAVISH: The plan I think will be general underwriting through a group. The names of which we mentioned earlier and which would be likely group and they in turn will sell securities either to the public or to institutions.

Mr. HODGSON: These companies—brokers you might call them—will be allowed 10 per cent.

Mr. MACTAVISH: Perhaps I should say in respect of section 11 that I think that that has been taken out of the Companies Act and put in this bill. It is applicable to the selling of securities of this company, the same principle as is in the general Companies Act.

Mr. RILEY: That is the maximum?

Mr. MACTAVISH: Yes.

Mr. HODGSON: According to clause 11 they can charge up to 10 per cent.

Mr. MACTAVISH: Yes, that is the maximum sir.

Mr. HODGSON: What about the selling of stock?

Mr. MACTAVISH: That again as Mr. Wilton mentioned, becomes competitive because we are not irretrievably committed to the group of which spoke, so that when the time comes the bidding for the underwriting will be on a competitive basis.

Mr. HODGSON: It seems to me there are so many companies trying to get charters to build pipelines that they look forward to this as being a big money scheme either in selling stock or transportation or gas. It might be that the public should have some protection when it comes to selling this stock.

Mr. MACTAVISH: I think that was what was actually in the minds of the legislators in the general pipeline Act. This model bill was set up to incorporate legislation governing the work of this sort of company.

Mr. HODGSON: That is the reason you get 10 per cent.

Mr. MACTAVISH: I have always assumed that.

Mr. HODGSON: I still think the maximum is higher.

Mr. GREEN: Could we hear the other witness.

Mr. Douglas Newton, Manager of Dominion Securities, Ottawa, called:

The WITNESS: Mr. Chairman, gentlemen, my name is Douglas Newton and I am the manager of Dominion Securities, Ottawa, and I am here on Dominion Securities behalf, and I would say that we would be interested in the financing of this company. It is difficult to say what proportion of bonds, preferred share, or common stock we would finance, but generally speaking it has been in the past 75 per cent bonds, 15 per cent preferred and 10 per cent common.

The CHAIRMAN: Any questions.

By Mr. Murphy:

Q. Any part of it convertible?—A. That depends at the time we make the issue, if we make the issue. It depends entirely on what the future holds. We are underwriters and distributors of securities. We are not promoters and when the whole has been finalized, then we can decide what is the best method of financing.

Q. In your distribution would any part of Canada receive, as has been done in the past, more than some other part?—A. I would not have any idea about that. I know in the case of Trans-Mountain most of the western people were given priority in purchasing the stock. We had a hand in Trans-Mountain and because of the servicing of the other area those people were given a priority—a good chance.

Q. Would that picture apply if you got a charter and had the opportunity of distributing at this time?—A. I could not answer that.

Mr. APPLEWHAITE: With that formula, 15 per cent preferred stock and 10 per cent common, does that mean the 5 million shares referred to in section 3 of the bill would be issued on the basis of 3 million preferred and 2 million common?

The WITNESS: I cannot answer that question.

Mr. APPLEWHAITE: What I am trying to get at is there are 5 million shares authorized under section 3 of the bill and does that include both preferred and common.

Mr. MAC TAVISH: Could I interject? I will file an affidavit in due course if the bill passes in which one paragraph reads as follows:

That I believe for the purpose of determining the fees to be paid with reference to the authorized capital of Mid-Continent Pipelines Ltd. the sum of \$35,000,000.00 should be fixed as the aggregate consideration for which the 5,000,000 shares of no nominal or par value may be issued.

Mr. APPLEWHAITE: But that is not my question. Of this 5 million shares are some going to be preferred and some common? Because the next question I am going to ask is what are the terms of preference.

Mr. MAC TAVISH: The implication in section 3: 5 million shares without nominal or par value, is a necessary implication they must be common shares.

Mr. APPLEWHAITE: Under what section of the bill do you issue half as much again in preferred shares?

Mr. MAC TAVISH: I think the answer is not to be found in the bill but under the general law which creates preferred shares under the Companies Act. I do not know where it came in the evidence there were to be preferred shares.

Mr. APPLEWHAITE: I wonder if you could explain to the committee what the situation is. If you are going to issue your 5 million common, I would like to know where the preferred comes from?

M. WILTON: Mr. Applewhaite, I understand it to be there are 5 million shares without nominal or par value provided in section 3. Those are common shares and we have set the figure on which we will pay a corporation tax of \$35 million expecting 10 per cent in common shares. Say we are thinking that the total cost of the line might be \$285 million, it might be more, but to be safe we put a value of \$35 million in our affidavit on the 5 million shares of common stock.

Mr. APPLEWHAITE: You have got 5 million shares of common stock?

Mr. WILTON: Right.

Mr. APPLEWHAITE: Where does your preferred stock come from?

Mr. WILTON: We have provisions whereby pursuant to paragraphs 7 and 8 of the bill certain sections of the Companies Act are incorporated into our bill. If we wish to create preferred stock we will do it pursuant to that.

Mr. APPLEWHAITE: That can be done increasing your capital stock without coming back for an amendment?

Mr. WILTON: Yes.

Mr. HODGSON: If you go out and sell stock in the company is there any assurance they will ever build the line?

The WITNESS: Our record should speak for itself. We have done a lot of financing in Canada. We have offices from Halifax through Canada, New York, London, England. We have done a great deal of financing in this country. I think you will find we are all right, if you will look up the records.

Mr. MAC TAVISH: In most of the provinces there are Security Acts in respect to which all financing has to be submitted and approval obtained and actual authority to sell stock must be given. I think I am safe in saying that is the case in every province of Canada. That is there for the protection of the public.

Mr. HODGSON: If a lot of people were to come before this committee seeking a charter for pipelines and they all built lines there would not be enough gas to fill them.

Mr. MACTAVISH: That is where the Board of Transport Commissioners come in, to avoid the possibility of two lines being built neither of which could be operated economically.

Mr. HODGSON: Or of several companies selling stock and only one line going to be built.

Mr. MACTAVISH: They must obtain approval from the Transport Board. From the public point of view I feel the public interest is well protected by the Provincial Securities Commission and the Board of Transport Commissioners.

Mr. GREEN: Am I correct in my understanding that your firm, Dominion Securities, is prepared to participate in the financing of this pipeline on the basis that it is an all-Canadian route to Ontario and Quebec?

Mr. WILTON: Yes, sir.

Mr. FOLLWELL: Can you tell the committee what percentage of the underwriting your company plans in comparison with the American underwriters?

The WITNESS: We do not know those figures ourselves.

Mr. FOLLWELL: It is a matter of agreement?

The WITNESS: Yes.

Mr. NICKLE: I would like to ask one more question of Mr. MacTavish. A survey has recently been completed by the University of Stanford in California and the University of Western Ontario dealing with the economics of the Trans-Canada route and fuel supply for eastern Canada. That report, I understand, is far from favourable in regard to the economics of an all-Canadian route. Now, during the next two months the Alberta Oil Conservation Board will conduct a hearing which, I understand, will go into a thorough study of the economics of all proposed or possible alternative routes for gas movement eastward from Alberta. My question is this: In the event that that Stanford report and the conclusions of the Alberta Oil Conservation Board would indicate that some route other than that you now propose would serve the interests of commerce and producers much better, would your company be prepared to amend your application to apply for some other route than that now proposed?

Mr. MACTAVISH: I do not believe we could, sir, because we could not at this point contemplate asking for leave to do something that was obviously impossible to do in the light of the declared policy at the present time. So, so far as I know—and I speak as a layman—I know of no alternative except north of the Great Lakes because any other alternative I can see geographically puts us in the position of exporting to the United States, which cannot be done in terms of policy enunciated.

Mr. NICKLE: A supplementary question: Should the policy laid down in Ottawa be revised, would you then consider taking a route which might be established as being in the better interest of Canadian consumers and producers than the route you now propose?

Mr. MACTAVISH: In those circumstances, sir, we would have to be guided by the advice of our economic experts and engineering experts as to where the pipeline should lie.

Mr. APPLEWHAITE: In the meantime it would have been built!

Mr. HOGSON: Would the Board of Transport Commissioners not have something to say on that?

Mr. MACTAVISH: Very definitely. Their approval of the route is perhaps the most important thing.

The CHAIRMAN: Any further questions?

Shall the preamble carry?

Carried.

Shall clause 1 carry?

Carried.

Shall clause 2 carry?

Carried.

Shall clause 3 carry?

3. "The capital stock of the company shall consist of five million shares without nominal or par value."

I believe Mr. MacTavish has an affidavit to file in connection with clause 3. Will the clerk please read it:

The CLERK:

I, DUNCAN KENNETH MACTAVISH, of the city of Ottawa, in the county of Carleton, one of Her Majesty's counsel, do hereby declare:—

1. That I am the solicitor for the applicants for incorporation of Mid-Continent Pipelines Ltd. and as such have knowledge of the matters hereinafter deposed to.

2. That I have been instructed by the applicants for the incorporation of the said company that the capital of the said company consisting of 5,000,000 shares without nominal or par value will not be issued for an aggregate consideration exceeding \$35,000,000.

3. That I believe for the purpose of determining the fees to be paid with reference to the authorized capital of Mid-Continent Pipelines Ltd. the sum of \$35,000,000 should be fixed as the aggregate consideration for which the 5,000,000 shares of no nominal or par value may be issued.

And I make this solemn declaration conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath and by virtue of The Canada Evidence Act.

Mr. WHITESIDE: Mr. Chairman, I move that, for the purpose of levying a charge on the capital stock, which will have no par value, the committee recommend that each share be deemed to be worth \$7.

The CHAIRMAN: Shall the motion carry?

Carried.

Shall clause 3 carry?

Carried.

Shall clause 4 carry?

Carried.

Shall clause 5 carry?

Carried.

Shall clause 6 carry?

6. The Company, subject to the provisions of any general legislation which is enacted by Parliament, relating to pipe lines for the transmission and transportation of gas and oil or any liquid product or by-product thereof, may

- (a) within or outside Canada construct, purchase, lease or otherwise acquire and hold, develop, operate, maintain, control, lease, mortgage, hypothecate, create liens or other security upon, sell, convey, or otherwise dispose of and turn to account any and all interprovincial and/or international pipe lines and all appurtenances relative thereto for gathering, transmitting, transporting, storing and delivering of natural and artificial gas and oil or any liquid

- or gaseous products or by-products thereof, including pumping stations, terminals, storage tanks or reservoirs and all works relative thereto for use in connection with the said pipe lines, provided that the main pipe line or lines for the transmission and transportation of gas and oil shall be located entirely within Canada; and buy, or otherwise acquire, transmit, transport and sell, or otherwise dispose of and distribute natural and artificial gas and oil and any liquid or gaseous products or by-products thereof; and own, lease, sell, operate and maintain aircraft and aerodromes for the purpose of its undertaking, together with the facilities required for the operation of such aircraft and aerodromes; and own, lease, operate and maintain interstation telephone, teletype and telegraph communication systems, and, subject to *The Radio Act, 1938*, and any other statute relating to radio, own, lease, operate and maintain interstation radio communication facilities;
- (b) purchase, hold, lease, sell, improve, exchange or otherwise deal in real property or any interest and rights therein legal or equitable or otherwise howsoever and deal with any portion of the lands and property so acquired, and may subdivide the same into building lots and generally lay the same out into lots, streets, and building sites for residential purposes or otherwise and may construct streets thereon and necessary sewerage and drainage systems and build upon the same for residential purposes or otherwise and supply any buildings so erected, or other buildings erected upon such lands, with electric light, heat, gas, water or other requisites, and lease or sell the same, upon such terms and subject to such conditions as appear requisite, either to its employees or to others; and
- (c) exercise as ancillary and incidental to the purposes or objects set forth in this Act, the powers following, unless such powers or any of them are expressly excluded by this Act, namely, the powers set forth in paragraphs (a) to (bb) inclusive of subsection (1) of section 14 of *The Companies Act, 1934*.

Mr. GREEN: Mr. Chairman, in connection with clause 6 I move that in line 14 on page 2 of the bill the words "or outside" be struck out; and that in line 19, the words "and/or international" be struck out; and in line 26, the words "the main" and "line or" be struck out, and that in substitution for the words "the main", the word "all" be inserted.

I repeat. In line 26, I move that we substitute for the words "the main" the word "all", so that the proviso will read: "all pipe lines for the transmission and transportation of gas and oil. . . ."

Mr. MACTAVISH: These amendments are quite acceptable to the promoters.

The CHAIRMAN: Shall the amendments carry?

Carried.

Shall clause 6 as amended carry?

Carried.

Shall clause 7 carry?

Carried.

Shall clause 8 carry?

Carried.

Shall clause 9 carry?

Carried.

Shall clause 10 carry?

Carried.

Shall clause 11 carry?

Carried.

Shall the title carry?

Carried.

Shall the bill as amended carry?

Carried.

Now concerning the printing of this evidence, how many copies would you like to have printed in English, and how many in French? Usually it is 750 copies in English, and 250 copies in French. Is that agreeable?

Mr. FOLLWELL: I so move.

Carried.

Mr. CARROLL: Do I understand that the people who were trying to get the other bill through in connection with the Boundary Pipelines paid a fee of \$1,200? And is it usual to return such a fee?

The CLERK OF THE COMMITTEE: Under Standing Order No. 93 it is customary, when a bill has been rejected by the committee, to refund the fee.

Mr. GREEN: That has nothing to do with this present bill. They paid in \$1,200 last year and I do not see why it is our duty to hand back that money to them.

Mr. CARROLL: If they are entitled to get it back, they become entitled by this committee.

Mr. MacTAVISH: Our feeling is this. Last year we brought forward the Boundary Pipeline bill. That bill went through all stages except to be passed by this committee. In entirely good faith, and in accordance with the rules, we paid \$1,200 in the hope and expectation that the bill would pass.

However, the bill which is before you now replaces that former bill and the facts are exactly the same. Consequently we feel it is only reasonable, and we respectfully request that consideration be given to allowing us a credit of \$1,200, for which we got no value at the last session, in respect to the fee which we had paid.

Mr. HODGSON: Mr. Chairman I do not agree with that because, if it had not been for the point of view put forward here and in this House, there would not have been an all Canadian route. Moreover, if we are going to establish the practice of refunding money to promoters we will find ourselves doing it every week of the year for the rest of our lives.

Mr. GREEN: The bill last year was opposed because the applicants had an entirely different scheme. The plan last year was to pipe this gas down to the United States, and the bill did not get through the House.

However, this year they have come before the committee with a different application and they ask for a charter. I should think they would be happy to achieve that result without trying to get back the \$1,200 that they spent last year because they have spent little enough on this whole project.

They are asking for a charter to build a pipeline costing \$285 million, yet they have only put up \$25,000, and that was last year. They have not provided surveys or had any additional costs. They come back here and admit that they haven't spent any more than they spent last year, namely, that \$25,000. Therefore I think it is going pretty far to ask this committee to refund them \$1,200.

Mr. CARROLL: I intended to move that it be either paid back to them or that it be regarded as an item in the present bill. However, since it is being opposed, I withdraw my motion.

The CHAIRMAN: I think there is an item—

Mr. WILTON: If there is any feeling that the \$1,200 should remain our group will be pleased to leave it.

Mr. MURPHY: I think that is the feeling.

Mr. WILTON: All right, we will forget about it.

